

FITCH AFFIRMS DHB'S PUBLIC SECTOR PFANDBRIEFE AT 'AAA', OFF RWN

Fitch Ratings-London/Frankfurt-17 August 2010: Fitch Ratings has today affirmed Duesseldorfer Hypothekenbank AG's (DHB, rated 'BBB-/Outlook Stable/F3') EUR8.1bn public sector Pfandbriefe rating at 'AAA', and removed the rating from Rating Watch Negative (RWN). The rating action follows an annual review of the programme. For further information, please see the 13 February 2009 comment, entitled "Fitch Puts Duesseldorfer Hypothekenbank and its Public Sector Pfandbriefe on Rating Watch Negative", which is available at www.fitchratings.com.

As of 30 June 2010, DHB's outstanding public sector Pfandbriefe were backed by a cover pool of EUR9.13bn, resulting in nominal overcollateralisation (OC) of 13.3%. However, since the issuer's Short-term rating is currently 'F3', in its analysis Fitch only took the publicly committed minimum nominal OC of 13.2% into account.

Fitch has maintained DHB's public sector covered bonds' Discontinuity Factor (D-Factor) at 6.1%. Fitch D-Factors measure the likelihood of a default of covered bonds following an issuer default. DHB's D-Factor benefits from the liquidity of the cover pool, which is comprised solely of bonds and Schuldscheine, bought in the secondary market. Together with the bank's Long-term Issuer Default Rating (IDR) of 'BBB-', a D-Factor of 6.1% enables DHB's public sector Pfandbriefe to be rated up to 'AA' on a probability of default (PD) basis, provided the OC is sufficient to sustain the corresponding rating scenario. The agency found the publicly committed nominal OC of 13.2% to be sufficient to withstand stresses in a 'AA' scenario and to provide outstanding recoveries in a 'AAA' scenario, supporting a two-notch uplift of the covered bonds rating to 'AAA'. All else being equal, a downgrade of the issuer's Long-term IDR would lead to a downgrade of the covered bond rating.

As of 30 June 2010, German exposure accounted for 55.8% of the cover pool followed by Austrian (16.7%) and Spanish (7.2%) borrowers. In a 'AAA' scenario, Fitch has calculated a Rating Default Rate and a Rating Recovery Rate of 12.7% and 50.4% respectively. The Rating Loss Rate has increased compared to the last review due to the negative rating migration of some European sovereign and sub-sovereign exposures. The German Sovereign and Federal States represent around 25% of the cover pool volume. Lending to German guaranteed public sector banks and Landesbanks as well as foreign sovereigns account for roughly 18% and 16% respectively of the cover pool. As with the programmes of most of its peers, concentration on a single borrower basis is on the high side.

The cash flow profiles are relatively well-matched in terms of maturity while some currency and interest rate mismatches exist. Maturity mismatches were assumed to be bridged through a portfolio sale occurring at a discounted sale price. Compared to the last review, Fitch has assumed higher refinancing costs to account for the higher volatility in the market observed in recent quarters. The weighted average residual maturities of cover assets and liabilities are 7 and 7.25 years, respectively. A high percentage of assets (95.5%) and liabilities (98.1%) are EUR-denominated. Some currency risk exists due to open positions in USD and CHF amounting to 1.66% and 1% of the total cover pool, respectively. The initial open floating assets position of 5.5% within the pool makes the covered bonds sensitive to decreasing interest rates.

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Additional information is available at www.fitchratings.com.

In its assessment of the credit quality of the German public sector entities included in the cover pool, Fitch has relied on statistics provided by "Hyp Real Estate Rating Services GmbH (HypRating GmbH)".

Applicable criteria, 'Covered Bonds Rating Criteria', dated 13 August 2010, 'Assessment of Liquidity Risks in Covered Bonds', dated 16 August 2010, are available at www.fitchratings.com.

Related Research:

Covered Bonds Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=547527

Assessment of Liquidity Risks in Covered Bonds

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=540786

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